

## Message Text

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ACTION NEA-12

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FM AMEMBASSY ISLAMABAD

TO SECSTATE WASHDC 808

C O N F I D E N T I A L ISLAMABAD 7254

FOR CONSTABLE, NEA/PAB

E.O. 11652: GDS

TAGS: OVIP, PFOR, PK

SUBJECT: BHUTTO VISIT; BRIEFING PAPERS -- ECONOMIC MATTERS

REF: ISLAMABAD 7213

1. THIS IS COMPANION-PIECE TO SUGGESTIONS FOR UPDATING BACKGROUND PAPERS IN JULY BRIEFING BOOK ON POLITICAL SIDE. IN ECONOMIC FIELD, TOO, WE FOUND PREVIOUS PAPERS WELL PREPARED AND USEFUL, ALTHOUGH NOW IN NEED OF UPDATING. PRINCIPAL NEW FACTOR HAS BEEN IMPACT OF FLOOD DISASTER ON ECONOMY, EXTERNAL ASSISTANCE NEEDS, AND LONG-TERM DEBT RESCHEDULING. FOLLOWING IS CHECK LIST DESIGNED TO HELP INSURE THAT YOU IDENTIFY SECTIONS NEEDING REVISION. SEPARATE MESSAGE OUTLINES ECONOMIC MATTERS LIKELY TO BE ON PRIME MINISTER BHUTTO'S MIND WHEN HE ARRIVES IN USA.

2. DEBT PROBLEM: EMPHASIS IN JULY PAPER ON THE INTERIM ARRANGEMENT SHOULD IN OUR VIEW BE REDIRECTED TO HEIGHTENED NEEDS FOR LONG-TERM RESCHEDULING, WHILE AT SAME TIME DRAWING ATTENTION TO EMERGENCE OF DIFFERING US AND PAK INTERPRETATIONS OF INTERIM ARRANGEMENTS. DAMAGE TO PRIME EXPORT CROPS, COTTON AND RICE, COULD REDUCE EXPORT PROCEEDS FROM TWO TO FOUR HUNDRED MILLION DOLLARS. REDUCTION IN OIL PRODUCTION CREATES ADDITIONAL IMPORT NEEDS. (WE WILL SEND FIRMER ESTIMATES WHEN AVAILABLE, BUT THIS WILL NOT NECESSARILY BE IN TIME FOR YOUR RE-  
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VISION OF PAPER.)

3. ECONOMIC SITUATION: EMPHASIS ON PROGRESS TOWARD RECOVERY AND FAVORABLE SHORT-TERM OUTLOOK SHOULD BE SUBSTANTIALLY MODIFIED TO TAKE INTO ACCOUNT IMPACT OF FLOOD DISASTER. WE HAVE SENT NUMEROUS REPORTS ON THIS SUBJECT (ALTHOUGH OF NECESSITY ON PRELIMINARY BASIS) AND THEY SHOULD BE HELPFUL TO YOU. SECTION ON ECONOMIC ASSISTANCE SHOULD BE UPDATED TO TAKE INTO ACCOUNT BROAD FOREIGN ASSISTANCE OCCASIONED BY FLOOD DISASTER, INCLUDING VERY IMPORTANTLY OUR OWN. SECTION ON COMMERCIAL TIES SEEMS STILL PERTINENT.

4. PL-480: THIS STANDS IN NEED OF SUBSTANTIAL REVISION BECAUSE OF NEW NEEDS CREATED BY FLOOD DAMAGE TO CROPS (E.G., RICE) AND STOCKS OF GRAIN (MAINLY WHEAT). SHOULD REFER TO 10,000 TONS OF WHEAT PROMISED IN WAKE OF FLOOD DISASTER.

5. NARCOTICS: THERE HAVE BEEN NO MAJOR DEVELOPMENTS IN RECENT WEEKS WHICH WOULD NECESSITATE SIGNIFICANT REVISIONS. GOP PREOCCUPATION WITH POLITICAL AND CONSTITUTIONAL DEVELOPMENTS, AND NOW WITH FLOOD DISASTER, HAS CONTRIBUTED TO THE RELATIVE INACTION IN THIS FIELD. WE ARE STILL HOPEFUL (BUT NOT SANGUINE) THAT BHUTTO WILL TAKE SOME CONCRETE STEP ON POPPY CULTIVATION BEFORE US VISIT.

6. OTHER PAPERS: IN ADDITION TO BACKGROUND PAPERS, THOSE ON PRESS GUIDANCE, ISSUES AND TALKING POINTS, ETC., SHOULD BE REVIEWED TO SEE THAT THESE REFLECT IMPACT OF FLOOD DISASTER, AS WELL AS OTHER DEVELOPMENTS.  
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